

Debt Capacity Update

City of Annapolis, Maryland

February 23, 2022

Confidential Working Papers



Introduction



- Davenport & Company LLC (“Davenport”), as financial advisor to the City of Annapolis (the “City”), has been tasked by the City with evaluating a general obligation financing option for the City’s Hillman Garage project.
- The City has entered into a pre-development agreement with AMRP to construct, finance, and operate the City’s Hillman Garage project as well as the City Dock Resilience Project.
- It is Davenport’s understanding that the City wishes to continue to have AMRP construct and operate the Hillman Garage, but has tasked Davenport to evaluate using the City’s general obligation bonds to finance the Hillman Garage instead of AMRP’s financing.
- Davenport has conducted this limited analysis of utilizing general obligation bonds in lieu of a developer-backed financing paid for by parking revenues. Davenport has not received or reviewed legislation, legal documents, or additional materials aside from a financial model provided by AMRP. Davenport has not been tasked with, nor have we undertaken, the evaluation of the project cost assumptions, operating assumptions, parking revenue forecast developed by AMRP, reasonableness of AMRP’s financing assumptions (including terms and interest rates), or any other analysis other than the potential use of general obligation bonds.

Hillman Garage Project



- According to estimates by AMRP, the construction and development of the Hillman Garage project is expected to cost approximately \$28.2 million.
- AMRP has provided the City with three Scenarios for financing the project, which include different amounts of senior and subordinate debt.
- Depending on the amount of debt issued, AMRP would provide the City with an upfront concession payment, in varying amounts depending on the debt financing terms, and then annual Parking Revenues payments.
 - This presentation will focus on AMRP's Scenario 3 as it would provide the largest concession payment to the City. Information on Scenarios 1 and 2 can be found in the Appendix of this presentation.
- The City is expecting to use the upfront concession payment to cover a large portion of the cost of the City Dock project.
- As an alternative to AMRP financing the Hillman Garage project, the City could issue its own general obligation bonds. This would eliminate any upfront concession payment, but would increase the amount of annual Parking Revenues payments.

City Dock Project



- According to AMRP, the construction and development of the City Dock project is expected to cost approximately \$35.3 million.
- The full sourcing of funds for the City Dock project has not been determined, although the City plans to use all or a large portion of the upfront concession payment for the Hillman Garage project to pay for the majority of the City Dock project.
- The City, with the assistance of AMRP, is looking for additional funding sources (grants or other outside revenue sources) to finance the remainder of the City Dock project.
- If additional funding sources cannot be identified, the City would need to issue general obligation bonds for the City Dock project.

Estimated Sources and Uses of Funds*



- The table below shows the estimated Sources and Uses of Funds from AMRP's Scenario 3 compared to the City issuing general obligation bonds to finance the Hillman Garage.

P3 Proposal - Scenario 3

Uses of Funds

Hillman Construction & Development Costs	\$28,182,489
Transaction Costs & Financing Fees	3,612,924
CAPI Reserve Funding	2,241,357
DSRA Funding	2,077,863
City Dock Pre-Development Cost	2,545,782
Net Concession Payment to City	22,454,218
Total Uses of Funds	\$61,114,632

Sources of Funds

Debt 1st Lien	51,364,984
Debt 2nd Lien	0
Hope Notes	9,661,527
City General Obligation Bonds	0
Interest Income	88,121
Total Sources of Funds	\$61,114,632

City Dock

Project Amount (from City Council Pres.)	\$35,255,262
Less Pre-Development Cost	(2,545,782)
Less Net Concession Payment to City	(22,454,218)
Amount Needed for City Dock Project	\$10,255,262

City Financing - GO Bonds (1-Year Cap I, 29-Year Amort)

Uses of Funds

Hillman Construction & Development Costs	\$28,182,489
Transaction Costs & Financing Fees	663,179
CAPI Reserve Funding	1,138,550
DSRA Funding	0
City Dock Pre-Development Cost	2,545,782
Net Concession Payment to City	0
Total Uses of Funds	\$32,530,000

Sources of Funds

Debt 1st Lien	0
Debt 2nd Lien	0
Hope Notes	0
City General Obligation Bonds	32,530,000
Interest Income	0
Total Sources of Funds	\$32,530,000

City Dock

Project Amount (from City Council Pres.)	\$35,255,262
Less Pre-Development Cost	(2,545,782)
Less Net Concession Payment to City	0
Amount Needed for City Dock Project	\$32,709,480

AMRP SCENARIO 3

- Debt for Hillman Garage would be the responsibility of AMRP and **non-recourse to the City**.
- City would receive a \$25 million concession payment that would be used to partially fund the City Dock Project.
- The City would still need an estimated \$10 million in additional funding to complete the City Dock project.

CITY FINANCING

- If the City issued GO Bonds to finance the Hillman Garage, the City would not receive a concession payment from AMRP.
- Without a concession payment, the City would need to find other sources of funds to finance the entire City Dock project.
- If the City had to fund the Hillman Garage and the City Dock projects with GO Bonds, **the City would need to issue approximately \$65 million in debt.**

*Preliminary, subject to change.

Cash Flow to City – Hillman Garage and City Dock Projects



- The following slide outlines the estimated cash flow to the City under AMRP's Scenario 3 and the City Financing option.
- For Hillman Garage, the cash flows show annual Parking Revenues to the City over the 30-year anticipated financing term, and also accounts for the estimated concession payment in Scenario 3.
 - Under Scenario 3, given the large upfront concession payment, less annual Parking Revenues will be paid to the City.
 - Under the City Financing option, the par amount of General Obligation Bonds is estimated at \$32.5 million. In addition, annual Parking Revenues to be paid to the City are projected to be higher than Scenario 3 due to the absence of the concession payment.
- The cash flows also assume that the full amount of the City Dock project will need to be funded through the issuance of general obligation bonds aside from the amount provided to the City in the upfront concession payment.
 - For Scenario 3, the par amount of the City Dock general obligation bonds is estimated to be approximately \$10.5 million.
- In the case of the general obligation bonds financing the Hillman Garage project, the entire City Dock project would also be funded through general obligation bonds.
 - For the Hillman Garage general obligation bonds scenario with no upfront concession payment, the par amount of the City Dock general obligation bonds is estimated to be approximately \$33.4 million.
- For the Hillman Garage project general obligation bonds, we have assumed the bonds would be issued in fiscal year 2022 with one-year capitalized interest followed by a 29-year principal amortization with level debt service at an interest rate of 4%. For the City Dock project general obligation bonds, we have assumed that the bonds would be issued in fiscal year 2023 with 30-year level debt service at an interest rate of 4%.

Estimated Cash Flow to City – Combined Hillman Garage and City Dock Projects (Scenario 3 and City G.O. Bonds)*



P3 Proposal - Scenario 3

Fiscal Year Ended June 30	Concession/ Parking Revenues to City	City Dock - GO Debt Service	Net Revenues Available to City	PV with 2% Discount Rate
2022	\$22,454,218	\$0	\$22,454,218	\$22,454,218
2023	0	0	0	0
2024	1,063,758	604,924	458,834	440,930
2025	1,090,352	604,924	485,428	457,295
2026	1,117,611	604,924	512,686	473,457
2027	1,145,551	604,924	540,627	489,422
2028	1,174,190	604,924	569,266	505,194
2029	1,203,544	604,924	598,620	520,777
2030	1,233,633	604,924	628,709	536,176
2031	1,264,474	604,924	659,550	551,395
2032	1,296,086	604,924	691,162	566,438
2033	1,328,488	604,924	723,564	581,308
2034	1,361,700	604,924	756,776	596,011
2035	1,395,742	604,924	790,818	610,550
2036	1,430,636	604,924	825,712	624,928
2037	1,466,402	604,924	861,478	639,150
2038	1,503,062	604,924	898,138	653,219
2039	1,540,638	604,924	935,714	667,139
2040	1,579,154	604,924	974,230	680,914
2041	1,618,633	604,924	1,013,709	694,546
2042	1,659,099	604,924	1,054,175	708,040
2043	1,700,577	604,924	1,095,653	721,398
2044	1,743,091	604,924	1,138,167	734,625
2045	1,786,668	604,924	1,181,744	747,722
2046	1,831,335	604,924	1,226,411	760,694
2047	1,877,118	604,924	1,272,194	773,544
2048	1,924,046	604,924	1,319,122	786,273
2049	1,972,148	604,924	1,367,223	798,887
2050	2,021,451	604,924	1,416,527	811,387
2051	2,071,987	604,924	1,467,063	823,776
2052	2,123,787	604,924	1,518,863	836,058
2053	2,176,882	604,924	1,571,958	848,234
Total	\$69,156,061	\$18,147,722	\$51,008,339	\$42,093,708

City Financing - GO Bonds (Hillman Garage and City Dock)

Fiscal Year Ended June 30	Parking Revenues to City	Hillman Garage GO Debt Service	City Dock GO Debt Service	Net Revenues Available to City	PV with 2% Discount Rate
2022	\$0	\$0	\$0	\$0	\$0
2023	0	0	0	0	0
2024	3,719,808	1,803,550	1,929,424	(13,166)	(12,652)
2025	4,053,969	1,805,275	1,929,424	319,270	300,767
2026	4,141,123	1,801,125	1,929,424	410,574	379,158
2027	4,239,680	1,801,275	1,929,424	508,981	460,774
2028	4,327,719	1,805,550	1,929,424	592,745	526,031
2029	4,424,754	1,803,775	1,929,424	691,555	601,627
2030	4,583,329	1,801,125	1,929,424	852,779	727,268
2031	4,734,360	1,802,600	1,929,424	1,002,336	837,970
2032	4,908,183	1,803,025	1,929,424	1,175,734	963,566
2033	5,071,021	1,802,400	1,929,424	1,339,196	1,075,905
2034	5,197,039	1,805,725	1,929,424	1,461,890	1,151,335
2035	5,334,365	1,802,825	1,929,424	1,602,115	1,236,910
2036	5,433,117	1,803,875	1,929,424	1,699,817	1,286,482
2037	5,560,463	1,803,700	1,929,424	1,827,338	1,355,744
2038	5,680,593	1,802,300	1,929,424	1,948,868	1,417,420
2039	5,794,880	1,804,675	1,929,424	2,060,780	1,469,281
2040	5,966,124	1,805,650	1,929,424	2,231,050	1,559,337
2041	6,132,880	1,805,225	1,929,424	2,398,231	1,643,156
2042	6,329,158	1,803,400	1,929,424	2,596,334	1,743,836
2043	6,503,034	1,805,175	1,929,424	2,768,435	1,822,790
2044	6,672,252	1,805,375	1,929,424	2,937,453	1,895,966
2045	6,841,618	1,804,000	1,929,424	3,108,194	1,966,640
2046	6,939,167	1,806,050	1,929,424	3,203,692	1,987,123
2047	7,128,674	1,801,350	1,929,424	3,397,900	2,066,055
2048	7,241,137	1,805,075	1,929,424	3,506,637	2,090,159
2049	7,339,343	1,801,875	1,929,424	3,608,043	2,108,228
2050	7,650,026	1,801,925	1,929,424	3,918,677	2,244,618
2051	7,877,549	1,805,050	1,929,424	4,143,075	2,326,393
2052	8,227,213	1,806,075	1,929,424	4,491,714	2,472,462
2053	9,040,692	0	1,929,424	7,111,267	3,837,265
Total	\$177,093,269	\$52,309,025	\$57,882,730	\$66,901,514	\$43,541,615

KEY OBSERVATION

While utilizing the City's General Obligation Bonds would always result in the lowest cost of funds, when considering the present value of the cash flow savings to the City, the difference between the two scenarios is de minimus (approximately \$1.4 million).

*Preliminary, subject to change.

- The City's issuance of general obligation bonds is estimated to provide cash flow savings to the City over the 30-year period. **When evaluated the cash flow on a present value basis, the cash flow savings mostly disappears.**
- We believe it is important to evaluate the cash flow on a present value basis not only because of the time value of money, but also due to the risks associated with the cash flow.
 - Once the City receives any upfront concession payment, there is no risk associated with it.
 - Annual Parking Revenues to the City are not guaranteed. If parking revenues are less than anticipated or expenses higher than expected, the City may receive reduced or no annual Parking Revenues payments.
- It is our understanding that **any financing undertaken by AMRP is non-recourse to the City.** If Parking Revenues are lower than anticipated, the City is not obligated to find other sources to pay for this debt. If the City issues general obligation debt, the City would be obligated to use tax revenues to make up any shortfall.
 - A substantial portion of the parking revenue is paid by visitors instead of the City's residents.

Rating Agency Considerations



- Based on our understanding of rating criteria and general discussions with the rating agencies, we believe that **any debt financed by AMRP would not be considered debt of the City** by the rating agencies as the City makes no guarantee of the debt or replenishment of reserves from tax revenues.
- If the City were to issue general obligation bonds, one or more rating agencies may consider parking as non-essential and include such debt in the issuer's debt burden.
- The City already has a fairly high debt service to expenditure ratio. Based on the FY 2022-2027 CIP, the City is expecting to have a debt service to expenditure ratio above 10% in fiscal years 2025 and 2026. **A new large debt issuance would increase this ratio to potentially higher than 12%, which is the City's policy ceiling.**

An above average debt to expenditure ratio could have current or future implications for the City's ratings.

Appendix



Estimated Sources and Uses of Funds* (Scenarios 1 & 2)



- The table below shows the estimated Sources and Uses of Funds from Scenarios 1 and 2 provided by AMRP that had smaller concession payments.

P3 Proposal - Scenario 1

Uses of Funds

Hillman Construction & Development Costs	\$28,182,489
Transaction Costs & Financing Fees	3,586,382
CAPRI Reserve Funding	2,562,189
DSRA Funding	1,630,950
City Dock Pre-Development Cost	2,545,782
Net Concession Payment to City	12,506,508
Total Uses of Funds	\$51,014,300

Sources of Funds

Debt 1st Lien	40,927,767
Debt 2nd Lien	6,535,000
Hope Notes	3,465,000
City General Obligation Bonds	0
Interest Income	86,532
Total Sources of Funds	\$51,014,299

City Dock

Project Amount (from City Council Pres.)	\$35,255,262
Less Pre-Development Cost	(2,545,782)
Less Net Concession Payment to City	(12,506,508)
Amount Needed for City Dock Project	\$20,202,972

P3 Proposal - Scenario 2

Uses of Funds

Hillman Construction & Development Costs	\$28,182,489
Transaction Costs & Financing Fees	3,635,280
CAPRI Reserve Funding	3,248,653
DSRA Funding	1,837,349
City Dock Pre-Development Cost	2,545,782
Net Concession Payment to City	14,309,638
Total Uses of Funds	\$53,759,191

Sources of Funds

Debt 1st Lien	44,119,516
Debt 2nd Lien	9,000,000
Hope Notes	550,000
City General Obligation Bonds	0
Interest Income	89,675
Total Sources of Funds	\$53,759,191

City Dock

Project Amount (from City Council Pres.)	\$35,255,262
Less Pre-Development Cost	(2,545,782)
Less Net Concession Payment to City	(14,309,638)
Amount Needed for City Dock Project	\$18,399,842

*Preliminary, subject to change.

Cash Flow to City – Hillman Garage Project



- For the financing scenarios provided by AMRP, the greater the upfront concession payment, the less annual Parking Revenues the City will be paid.
- The cash flow on the following page shows the upfront concession payments and annual Parking Revenues to the City over the 30-year anticipated financing term.
- In the general obligation bonds scenario, we have made the following assumptions:
 - Bonds issued in Spring 2022;
 - Par amount is approximately \$32.5 million;
 - One-year capitalized interest since we do not expect any parking garage revenues until fiscal year 2024 followed by a 29-year principal amortization with level debt service;
 - 4% interest rate; and
 - Costs of Issuance estimated at \$500,000 and Underwriter's Discount estimated at \$5/bond.
- This cash flow is only related to the Hillman Garage project. An additional cash flow is provided on page 8 that combines the Hillman Garage project and the City Dock project.

Estimated Cash Flow to City – Hillman Garage Project Only*



P3 Proposal - Scenario 1

Fiscal Year Ended June 30	Concession/ Parking Revenues to City	PV with 2% Discount Rate
2022	\$12,506,508	\$12,506,508
2023	0	0
2024	1,551,204	1,490,676
2025	1,588,822	1,496,743
2026	1,629,611	1,504,918
2027	1,676,752	1,517,942
2028	1,725,107	1,530,945
2029	1,774,474	1,543,726
2030	1,827,671	1,558,677
2031	1,881,993	1,573,379
2032	1,932,570	1,583,827
2033	1,984,969	1,594,717
2034	2,037,520	1,604,682
2035	2,091,395	1,614,657
2036	2,146,405	1,624,475
2037	2,201,687	1,633,482
2038	2,259,959	1,643,677
2039	2,318,089	1,652,736
2040	2,377,403	1,661,626
2041	2,438,294	1,670,605
2042	2,499,203	1,678,598
2043	2,561,683	1,686,661
2044	2,625,725	1,694,762
2045	2,691,368	1,702,903
2046	2,758,653	1,711,083
2047	2,832,035	1,721,987
2048	2,906,920	1,732,693
2049	2,984,050	1,743,620
2050	3,063,340	1,754,681
2051	3,144,322	1,765,580
2052	3,227,729	1,776,702
2053	3,313,688	1,788,078
Total	\$82,559,149	\$61,765,347

P3 Proposal - Scenario 2

Fiscal Year Ended June 30	Concession/ Parking Revenues to City	PV with 2% Discount Rate
2022	\$14,309,638	\$14,309,638
2023	0	0
2024	1,015,389	975,769
2025	1,195,387	1,126,109
2026	1,254,113	1,158,153
2027	1,314,748	1,190,225
2028	1,379,587	1,224,314
2029	1,439,993	1,252,741
2030	1,524,010	1,299,708
2031	1,609,168	1,345,292
2032	1,691,076	1,385,912
2033	1,747,397	1,403,852
2034	1,790,584	1,410,203
2035	1,841,596	1,421,801
2036	1,882,752	1,424,934
2037	1,938,233	1,438,019
2038	1,995,272	1,451,169
2039	2,046,627	1,459,190
2040	2,111,178	1,475,555
2041	2,170,141	1,486,880
2042	2,239,878	1,504,421
2043	2,301,369	1,515,265
2044	2,365,639	1,526,891
2045	2,448,067	1,548,960
2046	2,499,733	1,550,486
2047	2,577,153	1,567,009
2048	2,635,041	1,570,638
2049	2,834,775	1,656,397
2050	3,063,340	1,754,681
2051	3,144,322	1,765,580
2052	3,227,729	1,776,702
2053	3,313,688	1,788,078
Total	\$76,907,625	\$57,764,571

P3 Proposal - Scenario 3

Fiscal Year Ended June 30	Concession/ Parking Revenues to City	PV with 2% Discount Rate
2022	\$22,454,218	\$22,454,218
2023	0	0
2024	1,063,758	1,022,250
2025	1,090,352	1,027,161
2026	1,117,611	1,032,095
2027	1,145,551	1,037,052
2028	1,174,190	1,042,034
2029	1,203,544	1,047,039
2030	1,233,633	1,052,068
2031	1,264,474	1,057,122
2032	1,296,086	1,062,200
2033	1,328,488	1,067,302
2034	1,361,700	1,072,429
2035	1,395,742	1,077,580
2036	1,430,636	1,082,756
2037	1,466,402	1,087,957
2038	1,503,062	1,093,183
2039	1,540,638	1,098,434
2040	1,579,154	1,103,710
2041	1,618,633	1,109,012
2042	1,659,099	1,114,339
2043	1,700,577	1,119,692
2044	1,743,091	1,125,070
2045	1,786,668	1,130,474
2046	1,831,335	1,135,905
2047	1,877,118	1,141,361
2048	1,924,046	1,146,843
2049	1,972,148	1,152,352
2050	2,021,451	1,157,887
2051	2,071,987	1,163,449
2052	2,123,787	1,169,038
2053	2,176,882	1,174,653
Total	\$69,156,061	\$55,356,667

City Financing - GO Bonds (1-Year Cap I, 29-Year Amort)

Fiscal Year Ended June 30	Parking Revenues to City	City GO Debt Service	Net Revenues Available to City	PV with 2% Discount Rate
2022	\$0	\$0	\$0	\$0
2023	0	0	0	0
2024	3,719,808	1,803,550	1,916,258	1,841,487
2025	4,053,969	1,805,275	2,248,694	2,118,372
2026	4,141,123	1,801,125	2,339,998	2,160,949
2027	4,239,680	1,801,275	2,438,405	2,207,456
2028	4,327,719	1,805,550	2,522,169	2,238,297
2029	4,424,754	1,803,775	2,620,979	2,280,155
2030	4,583,329	1,801,125	2,782,204	2,372,722
2031	4,734,360	1,802,600	2,931,760	2,451,002
2032	4,908,183	1,803,025	3,105,158	2,544,815
2033	5,071,021	1,802,400	3,268,621	2,625,998
2034	5,197,039	1,805,725	3,391,314	2,670,884
2035	5,334,365	1,802,825	3,531,540	2,726,518
2036	5,433,117	1,803,875	3,629,242	2,746,739
2037	5,560,463	1,803,700	3,756,763	2,787,228
2038	5,680,593	1,802,300	3,878,293	2,820,698
2039	5,794,880	1,804,675	3,990,205	2,844,910
2040	5,966,124	1,805,650	4,160,474	2,907,859
2041	6,132,880	1,805,225	4,327,655	2,965,108
2042	6,329,158	1,803,400	4,525,758	3,039,740
2043	6,503,034	1,805,175	4,697,859	3,093,159
2044	6,672,252	1,805,375	4,866,877	3,141,304
2045	6,841,618	1,804,000	5,037,618	3,187,440
2046	6,939,167	1,806,050	5,133,117	3,183,869
2047	7,128,674	1,801,350	5,327,324	3,239,220
2048	7,241,137	1,805,075	5,436,062	3,240,208
2049	7,339,343	1,801,875	5,537,468	3,235,616
2050	7,650,026	1,801,925	5,848,101	3,349,793
2051	7,877,549	1,805,050	6,072,499	3,409,791
2052	8,227,213	1,806,075	6,421,138	3,534,513
2053	9,040,692	0	9,040,692	4,878,390
Total	\$177,093,269	\$52,309,025	\$124,784,244	\$85,844,240

*Preliminary, subject to change.

Municipal Advisor Disclaimer



The enclosed information relates to an existing or potential municipal advisor engagement.

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